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UNITED NATIONS POPULATION FUND

Midterm review of the integrated budget for 2014-2017

Report of the Advisory Committee on Administrative and Budgetary Questions

Summary

The Advisory Committee on Administrative and Budgetary Questions has considered the report of the Executive Director of the United Nations Population Fund (UNFPA) on the midterm review of the integrated budget, 2014-2017 (DP/FPA/2016/3). During its consideration of the report, the Advisory Committee met with the Executive Director, Deputy Executive Director and other representatives of UNFPA, who provided additional information and clarification, concluding with written responses dated 23 May 2016. The Committee was also provided with a supplementary document setting out UNFPA responses to the Committee's recommendations made in its report (DP/FPA/2013/15) on the integrated budget 2014-2017.

The Advisory Committee's review of the Executive Director's report is in accordance with regulation 11.4 of the UNFPA Financial Regulations and Rules, which states that the Executive Director shall transmit the proposed institutional budget to the Advisory Committee for examination and report at the same time as it is transmitted to Members of the Executive Board. In this regard, the Committee's comments and observations mainly relate to the institutional component of the integrated budget.

The elements of a decision are set out in section IV of the report, of which paragraph 81(f) relates to the institutional budget component of the integrated budget. Subject to its comments and recommendations above, the Advisory Committee recommends that the Executive Board approve the revised gross estimates for the institutional budget 2014-2017 for UNFPA.

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UNITED NATIONS POPULATION FUND

Midterm review of the integrated budget for 2014-2017

Report of the Advisory Committee on Administrative and Budgetary Questions

I. Introduction

1. The Advisory Committee on Administrative and Budgetary Questions has considered the report of the Executive Director of the United Nations Population Fund (UNFPA) on the midterm review of the integrated budget, 2014-2017 (DP/FPA/2016/3). During its consideration of the report, the Advisory Committee met with the Executive Director, Deputy Executive Director and other representatives of UNFPA, who provided additional information and clarification, concluding with written responses dated 23 May 2016. The Committee was also provided with a supplementary document setting out UNFPA's responses to the Committee's recommendations made in its report (DP/FPA/2013/15) on the integrated budget 2014-2017.

2. The Advisory Committee's review of the Executive Director's report is in accordance with regulation 11.4 of the UNFPA Financial Regulations and Rules, which states that the Executive Director shall transmit the proposed institutional budget to the Advisory Committee for examination and report at the same time as it is transmitted to Members of the Executive Board. In this regard, the Committee's comments and observations mainly relate to the institutional component of the integrated budget.

II. Midterm review of the integrated budget

3. The report states that while the overall direction of the strategic plan remains unchanged, some adjustments are suggested to a few outputs, indicators and targets, and the integrated budget represents the financial plan to enable delivery on these results (DP/FPA/2016/3, para. 11). Upon enquiry, the Advisory Committee was provided with the midterm review of the strategic plan.

4. With respect to contribution revenue in 2014, actual regular resource contributions totalled $477 million compared to $476 million planned, while other resources revenue amounted to $525 million compared to $542 million projected. For 2015, mainly due to adverse exchange rates against a strong United States dollar, regular resources totalled $398 million compared to $478 million projected, while other resources totalled $575 million compared to $573 million targeted. Contribution revenue projections have accordingly been updated as follows: for 2016, $340 million for regular resources and $600 million for other resources, down from $482 million and $611 million, respectively; and for 2017, $350 million for regular resources and $650 million for other resources, down from $486 million and $656 million, respectively (DP/FPA/2016/3, paras. 14 to 16).

5. Upon enquiry, the Advisory Committee was informed that in 2015, about 91 per cent of the decrease in core contribution income received was attributable to the impact of exchange rates, and the remaining 9 per cent was due to the reductions and offsets of the contributions of donors. In 2016, about 55 per cent of the decrease in core contribution income received is attributable to the impact of exchange rates and 45 per cent to the reductions and offsets of the contributions of donors. The Committee was also informed that UNFPA estimates a similar impact in 2017 as that experienced in 2016.

6. The integrated budget comprises the following components: country programmes; global and regional interventions; the emergency fund and humanitarian response reserve; and the institutional budget. In view of the reduced contributions to regular resources, UNFPA has distributed fewer resources to the institutional budget, thereby allocating a lower amount for these activities than originally approved by the Executive Board. The reduction of institutional budget allotments is driven primarily by austerity measures including the freezing of a significant number of posts as well as reductions in operational allotments. The report indicates that the measures would need to continue into 2017 (DP/FPA/2016/3, paras. 40 and 41).

7. Upon enquiry as to expenditure relating to the institutional budget, the Advisory Committee was provided with the table below setting out the actual expenditure for 2014-2015, by object of expenditure, for the institutional budget. The Committee notes that the actual expenditure at the midterm point for the two-year period 2014 and 2015 amounts to $279.8 million, as compared to the revised institutional budget estimate of $609.9 million for the four-year period.

(In millions of dollars)

2014-2017 institutional budget by expenditure category	**Original budget 2014-2017***	**Midterm review 2014-2017***	**Actual 2014-2015**
Posts	502.9	451.3	217.8
Other staff costs	1.7	1.4	0.8
Consultants	4.5	7.1	3.3
Travel	15.6	14.2	5.8
Operating expenses	68.5	66.4	27.2
Furniture and equipment	11.8	8.6	2.5
Reimbursements	22.6	27.6	12.0
Insurance and security	8.7	7.9	2.7
Total	636.4	584.7	272.1
Non-recurrent costs	19.1	16.7	3.6
Special purpose			
United Nations development coordination	8.6	8.5	4.1
Grand total gross institutional budget	664.1	609.9	279.8

* UNFPA original budget and midterm review estimates are shown for 2014-2017 as the Executive Board approved appropriations for a four-year period.

8. On staffing matters, the Advisory Committee enquired about and was provided with information on the gender and geographic diversity of staff in UNFPA (see annex). The Advisory Committee was also provided, upon enquiry, with the table below on the institutional budget post changes in the midterm review.

	2014-2017 approved posts							Changes: increase and (decrease)						2014-2017 proposed posts MTR						
	USG/ ASG	D2	D1	Other IP	All other	Total	% of total	USG/ ASG	D2	D1	Other IP	All other	Total	USG/ ASG	D2	D1	Other IP	All other	Total	% of total
Field		6	39	179	518	742	73.9%			4	(8)	21	17		6	43	171	539	759	72.2%
Headquarters	3	6	24	134	100	267	26.9%		1	1	22	1	25	3	7	25	156	101	292	27.8%
Total	3	12	63	313	618	1,009	100.0%		1	5	14	22	42	3	13	68	327	640	1,051	100.0%

Note: IP= international professional

9. The Committee was further informed that of the net increase of 42 posts reflected in the table above, 41 posts relate to the integrated budget neutral transfer of positions from global and regional interventions programme cost classification to management, in line with the harmonized cost classification definitions. Upon subsequent enquiry, the Committee was provided with the table below setting out the justification of posts by function.

Function	Net post count	Justification
GRI Review	41	Integrated budget-neutral reclassification of posts from GRI (Programme) to management, in line with harmonized cost classification definitions
Enhancement of inter-governmental work	2	Changes in inter-governmental work and building partnerships
Audit and Investigation	3	Strengthening of internal audit and investigation functions in response to Executive Board requests
Evaluation	1	Budget-neutral conversion of a temporary position to support strengthening of evaluation function in line with Executive Board approved Evaluation plan
Procurement Services	1	Realignment of Procurement Services Branch
Field posts	-3	Realignment of Field posts
Division of Human Resources	-3	Realignment of Division of Human Resources structure
Total	**42**	

10. Noting the information in paragraphs 7 to 9 above, which was not included in the report and was provided to the Committee upon its requests, the Advisory Committee enquired as to whether, in the view of UNFPA, the level of detail provided in the midterm review report was sufficient. The Committee was informed that the review focuses on the experience with the integrated budget during 2014-2015 and the revised estimates for 2016-2017 based on newly available information. The Committee was also informed that UNFPA has positioned and developed this budget proposal as a results-based proposal, linked to the strategic vision of the Organization, instead of providing input-based information.

11. The Advisory Committee recalls that, in its last report, it looked forward to the midterm review of the integrated budget for 2014-2017, which would be an important opportunity to assess integrated budget formulation and implementation (DP/FPA/2013/15, para. 11). **While recognizing that UNFPA has incorporated the results-based budgeting approach in its integrated budget as approved by the Executive Board, the Advisory Committee, nonetheless, requests that UNFPA provide to the Committee information on major items of expenditure under post and non-post resources, as supplementary information, to facilitate its future consideration and better analysis of the institutional component of the integrated budget. The Committee is of the view that the supplementary information should include a comparison of expenditures against planning estimates and an analysis of variances.**

12. In terms of the overall experience with the four-year integrated budget, the supplementary document states that UNFPA agrees with the Advisory Committee that a four-year budget proposal necessarily embeds uncertainties which must be reassessed in light of new information. Upon enquiry, the Advisory Committee was informed that the preparation of a four-year budget has presented opportunities as well as challenges for the Organization. The alignment of the strategic plan and integrated budget planning periods has enabled UNFPA to strengthen linkages between strategic and financial planning. However, there have been operational challenges as well, including the need to revise regular resources projections due to exchange rate fluctuations and indications from donors, and to absorb the additional costs of oversight and evaluation relating to mandates arising after the approval of the integrated budget. The Committee was further informed that it may be necessary to consider other innovative models for funding these independent oversight functions, particularly in the context of a longer-term budget horizon.

13. The Committee recalls its previous comments regarding the uncertainties associated with the resource projections and the costing assumptions over a four-year period (DP/FPA/2013/15, para. 11). **The Advisory Committee is of the view that the secretariat of UNFPA, in consultation with the secretariats of UNDP and UNICEF, should conduct a lessons learned exercise on the implementation of the first harmonized quadrennial integrated budget, and they should report to their respective Executive Boards in the context of the submission of the next strategic plan and integrated budget.**

Cost recovery

14. With respect to cost recovery, the report states that with an increasing proportion of other resources funding, cost recovery of indirect costs and charging of direct costs to programmes funded from other resources are key to ensuring financial sustainability. It is also stated that the actual effective cost recovery rate for UNFPA was 7.02 per cent for 2014 and 7.03 per cent for 2015, which is within the range of the general harmonized rate of 8 per cent, the differentiated rate of 7 per cent for thematic contributions and the 5 per cent preferential rate for government cost-sharing contributions. Management costs to be apportioned between regular resources and other resources were calculated by excluding critical cross-cutting functions, funded from regular resources. From remaining management costs, the amounts related to regular resources and to other resources were obtained based on the principle of full proportionality. Indirect costs arising from implementation of regular resources and indirect costs arising from the implementation of other resources were estimated based on the share of actual use of resources (regular and other) for 2014 and 2015 (DP/FPA/2016/3, paras. 76 and 79).

15. Upon enquiry, the Advisory Committee was informed that the actual effective cost recovery rate would not reach 8 per cent due to the exceptions of differentiated and preferential rates, and the application of legacy agreements in effect before the approval of the new cost recovery rates. The Committee was also informed that the methodology for establishing the indirect cost recovery rate will be reviewed as part of the independent assessment of cost recovery requested by the Executive Board (a joint UNDP, UNFPA, UNICEF and UN-Women review) which is due to be submitted at the second regular session in 2016. The Committee was further informed that while the implementation of projects funded from other resources incurs indirect and direct costs, the cost recovery rate is applied for the recovery of indirect costs only.

16. **The Advisory Committee welcomes the increasing percentage of the funding of the institutional budget from cost recovery. The Committee expects that, in accordance with General Assembly resolution 67/226, the financing of all non-programme costs will be based on full cost recovery, proportionally, from core and non-core funding sources. In this regard, the Advisory Committee looks forward to receiving an update on the**

alignment of the cost recovery methodology with General Assembly resolution 67/226, including the findings of the independent and external assessment involving UNDP, UNFPA, UNICEF and UN Women, in the context of the next submission of the integrated budget.

2030 Agenda

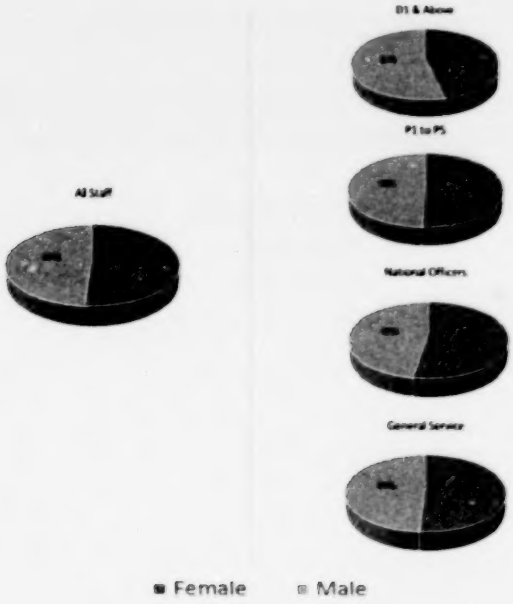
17. Paragraphs 9 and 10 of the report indicate that UNFPA has a vital role to play in supporting countries to implement and achieve the Sustainable Development Goals, and that the work of UNFPA cuts across the 2030 Agenda. Upon enquiry as to the link between the 2030 Agenda and the strategy and budget of UNFPA, the Advisory Committee was informed that the strategic plan is linked to all sustainable development goals, in particular goals 3, 5, 10, 16 and 17, while the integrated budget provides the resources geared towards the delivery of the 2030 agenda mandates. The Committee was also informed that any additional requirements would need to be included in the next strategic plan and accompanying integrated budget proposal for 2018-2021. The Advisory Committee recalls that in its latest report on the 2030 and Addis Ababa Action Agendas (A/70/883), it recommended that the General Assembly request the Secretary-General to submit, no later than at the main part of the seventy-first session, a comprehensive proposal that addresses the effective and efficient delivery of mandates in support of the two Agendas together with a request for appropriation. **In this regard, the Advisory Committee trusts that UNFPA will work with other UN system entities to ensure an integrated approach to the implementation of the 2030 and Addis Ababa Action Agendas.**

III. Conclusion

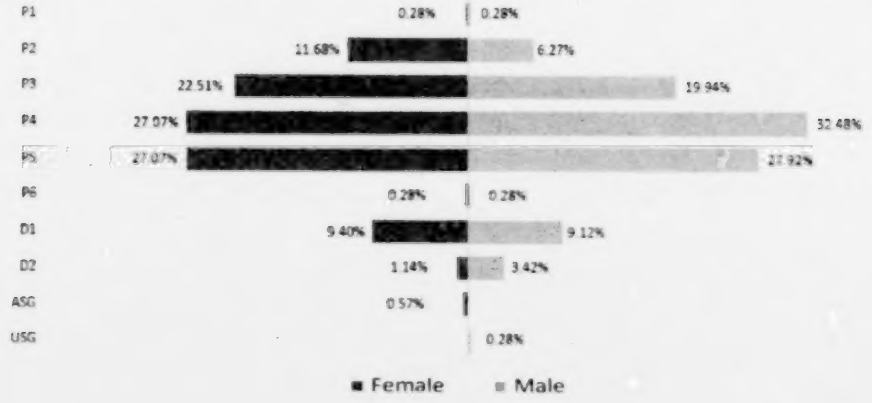
18. The elements of a decision are set out in section IV of the report, of which paragraph 81(f) relates to the institutional budget component of the integrated budget. **Subject to its comments and recommendations above, the Advisory Committee recommends that the Executive Board approve the revised gross estimates for the institutional budget 2014-2017 for UNFPA.**

Annex

Gender balance of staff



Grade distribution of international professional staff



Geographic distribution of international professional staff